Financial Statements of

# NOVA SCOTIA JOBS FUND

Year ended March 31, 2013

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# INDEPENDENT AUDITORS' REPORT

To the Minister of Economic and Rural Development and Tourism, Province of Nova Scotia

We have audited the accompanying financial statements of Nova Scotia Jobs Fund which comprise the statement of financial position as at March 31, 2013, the statements of operations, changes in net financial assets, continuity of fund under the Nova Scotia Jobs Fund Act and continuity of fund under the Venture Corporations Act for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nova Scotia Jobs Fund as at March 31, 2013, and its results of operations, net financial assets and continuity of funds for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants
June 20, 2013
Halifax, Canada

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# NOVA SCOTIA JOBS FUND

Statement of Financial Position
(in thousands of dollars)

March 31, 2013, with comparative figures for 2012

| | 2013 | 2012 |
|---|---|---|
| **Financial Assets** | | |
| Investments and development incentives: | | |
| Loans (note 2) | $ 256,011 | $ 188,812 |
| Development incentives | 39,729 | 20,752 |
| Loans - Venture Corporations Act (note 3) | 809 | 809 |
| Royalty rights (note 4) | 1,400 | 1,416 |
| Shares (note 5) | 42,680 | 41,412 |
| | 340,629 | 253,201 |
| Provisions for concessionary assistance (note 6) | (29,993) | (9,804) |
| Provisions for development incentives | (39,728) | (20,752) |
| Allowance for doubtful accounts | (45,864) | (33,966) |
| | (115,585) | (64,522) |
| | 225,044 | 188,679 |
| Assistance authorized but unadvanced: | | |
| Loans | 342,007 | 323,985 |
| Development incentives | 29,296 | 32,725 |
| | 371,303 | 356,710 |
| Due from Consolidated Fund of the Province of Nova Scotia: | | |
| Guarantees (note 7) | 64,550 | 65,700 |
| Provisions for payment under guarantees | (6,275) | (5,275) |
| | 58,275 | 60,425 |
| Uncommitted balance of Fund, due from Consolidated Fund of the Province of Nova Scotia | 71,509 | 83,284 |
| Net financial assets, being accumulated surplus | $ 726,131 | $ 689,098 |
| **Accumulated Surplus - Committed and Uncommitted** | | |
| Accumulated surplus is comprised of: | | |
| Authorized, net of write offs: | | |
| Nova Scotia Jobs Fund Act | $ 843,584 | $ 754,486 |
| Venture Corporations Act | 4,408 | 4,408 |
| | 847,992 | 758,894 |
| Provision for concessionary assistance, development incentives and possible losses on assistance (note 8) | (121,861) | (69,796) |
| Contingencies (note 9) | | |
| | $ 726,131 | $ 689,098 |

See accompanying notes to financial statements.

On behalf of the Fund:

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# NOVA SCOTIA JOBS FUND

Statement of Operations
(in thousands of dollars)

Year ended March 31, 2013, with comparative figures for the period from December 21, 2011 to March 31, 2012

| | 2013 | 2012 |
|---|---|---|
| Revenues: | | |
| Interest | $ 7,916 | $ 1,898 |
| Guarantee fees | 704 | 299 |
| Dividends | 66 | 44 |
| | 8,686 | 2,241 |
| Expenditures: | | |
| Loans written off and development incentives earned | 17,402 | - |
| Operating surplus (deficiency) for the period | $ (8,716) | $ 2,241 |

See accompanying notes to financial statements.

# NOVA SCOTIA JOBS FUND

Statement of Changes in Net Financial Assets
(in thousands of dollars)

Year ended March 31, 2013, with comparative figures for the period from December 21, 2011 to March 31, 2012

| | 2013 | 2012 |
|---|---|---|
| Change in net financial assets: | | |
| Increase in uncommitted balance of Fund | $ (118,269) | $ (299,531) |
| Increase in authorized amounts (OIC 2012-264, OIC 2012-375, OIC 2013-34) | 106,500 | 304,000 |
| Cancellation of loans | (16,769) | (26,340) |
| Cancellation of guarantees | (3,150) | - |
| Principal repayments reinvested in the Fund | (38,575) | (39,362) |
| Authorizations during the year | 175,299 | 365,065 |
| Loans written off and development incentives earned | (17,402) | - |
| Change in provisions | (52,065) | (13,258) |
| Capitalized interest | 444 | 112 |
| Guarantee payments | 1,020 | 53 |
| Increase in net financial assets | 37,033 | 290,739 |
| Net financial assets, beginning of period | 689,098 | - |
| Net financial assets, transferred from Industrial Expansion Fund | - | 398,359 |
| Net financial assets, end of period | $ 726,131 | $ 689,098 |

See accompanying notes to financial statements.

# NOVA SCOTIA JOBS FUND

Statement of Continuity of Fund Under the Nova Scotia Jobs Fund Act
(in thousands of dollars)

Year ended March 31, 2013, with comparative figures for the period from December 21, 2011 to March 31, 2012

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Fund balance, beginning of period | $ | 754,486 | $ | - |
| Fund balance transferred from Industrial Expansion Fund | | - | | 450,483 |
| Increase in authorized amount per OIC 2012-264, OIC2012-375, OIC 2013-34 | | 106,500 | | 304,000 |
| Operating surplus (deficiency) for the period | | (8,716) | | 2,241 |
| Revenue recorded in Consolidated Fund | | (8,686) | | (2,241) |
| Net expenditures | | (17,402) | | - |
| Other activities within the Fund: | | | | |
| Expiration of guarantees | | 3,150 | | - |
| Cancellation of loans | | 16,769 | | 26,340 |
| Decrease in uncommitted balance of Fund | | 118,269 | | 299,531 |
| Principal repayments reinvested in the Fund | | 38,575 | | 39,362 |
| | | 176,763 | | 365,233 |
| Authorizations during the period | | (175,299) | | (365,065) |
| Capitalized interest | | (444) | | (112) |
| Guarantee payments | | (1,020) | | (53) |
| | | (176,763) | | (365,230) |
| Fund balance, end of period | $ | 843,584 | $ | 754,486 |

See accompanying notes to financial statements.

# NOVA SCOTIA JOBS FUND

Statement of Continuity of Fund Under the Venture Corporations Act
(in thousands of dollars)

Year ended March 31, 2013, with comparative figures for the period from December 21, 2011 to March 31, 2012

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Fund balance, beginning of period | $ | 4,408 | $ | - |
| Fund balance transferred from Industrial Expansion Fund | | - | | 4,408 |
| Deduct: Accounts written off | | - | | - |
| Fund balance, end of period | $ | 4,408 | $ | 4,408 |
| Comprising: | | | | |
| Loans advanced | $ | 809 | $ | 809 |
| Uncommitted balance | | 3,599 | | 3,599 |
| | $ | 4,408 | $ | 4,408 |

See accompanying notes to financial statements.

# NOVA SCOTIA JOBS FUND

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2013

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The Nova Scotia Jobs Fund Act (the "Act") was proclaimed in force by Order in Council 2011-440 and came into effect on December 21, 2011. It provided, in sub-section 3(1) that the former Industrial Expansion Fund was continued as a special account in the office of the Deputy Minister of Finance as the Nova Scotia Jobs Fund (the "Fund"). Effectively, all assets of the Industrial Expansion Fund became part of the Nova Scotia Jobs Fund and ceased to exist as a separate fund. The Fund is used for the purposes set out in section 4 of the Act, and includes providing investment for the purpose of economic development, including without limitation for the purposes of economic growth, attracting business or foreign direct investment, promoting international trade and commerce and sustaining or increasing employment. All investment from the Fund need an approval of the Governor in Council as reflected in an Order in Council. The Fund's account and management activities are performed by staff of the Department of Economic and Rural Development and Tourism (the "Province"), while the accounting function is managed, in part, by Nova Scotia Business Incorporated ("NSBI").

**1. Significant accounting policies:**

These financial statements are prepared by management in accordance with Canadian public sector accounting standards as recommended by the Canadian Institute of Chartered Accountants. These financial statements reflect the assets, liabilities, revenues, expenses and fund balances of the Fund. The more significant polices are described below:

(a) Basis of accounting:

The Fund follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(b) Loans receivable:

Loans receivable are recorded at amortized cost less allowances. An allowance is recorded when management considers it necessary to reduce the loan to its estimated recoverable amount.

(c) Royalties rights:

Royalty rights are valued at cost. The value of these rights is assessed annually by estimating the net present value of anticipated cash flows. If the carrying value of the right exceeds the net present value of future cash flows, the right is written down to the net present value.

**1. Significant accounting policies (continued):**

(d) Shares:

Equity investments with limited market information available are initially recorded at cost less allowances. This allowance or the difference between valuation and cost amount, reflects the risk associated with equity investments.

(e) Provision for concessionary assistance:

The Fund provides for the effect of the decrease in valuation of certain loans and shares due to assistance being provided with concessionary terms.

(f) Financial instruments:

Financial instruments are recorded at fair value on initial recognition and are subsequently recorded at cost unless management has elected to carry the instruments at fair value.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statements of remeasurement gains and losses.

The Fund has no measurements at fair value as at March 31, 2013.

(g) Allowance for doubtful accounts:

The Fund provides for possible losses on guarantees, loans, shares and other assets on an item-by-item basis by examining such factors as the client's financial condition and the fair value of the underlying security.

(h) Guarantees:

Guarantees, including utilized and unutilized portions, are recorded at cost.

**1. Significant accounting policies (continued):**

(i) Revenues and administrative expenses:

Chapter 222 of the Revised Statutes of Nova Scotia contains the legislation relating to the Industrial Development Act. Clause 8, Administrative Expenses, states "The administration expenses of the Minister and of the Board shall be administration expenses of the Department of Economic and Rural Development and Tourism." Accordingly, administrative expenses of the Fund are included in the accounts of the Department of Economic and Rural Development and Tourism and are not reflected in the financial statements of the Fund.

Interest revenue and guarantee fees earned by the Fund are recorded directly in the accounts of the Consolidated Fund of the Province of Nova Scotia.

(j) Government transfers:

Government transfers received and paid relate to establish and assist in developing or expanding industries in the Province.

Government transfers are recognized as revenue in the financial statements in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

(k) Statement of cash flows:

A statement of cash flows is not provided since the Fund does not maintain a cash account and disclosures in the statement of financial position, statement of operations, statement of net financial assets, and statement of continuity of the funds adequately represent the changes in Fund balances.

(l) Statement of remeasurement gain and loss:

The Fund has not presented a statement of remeasurement gain and loss as the Fund has no financial instruments that give rise to remeasurement gains or losses.

**1. Significant accounting policies (continued):**

(m) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant estimates included in the financial statements relate to the valuation of the financial assets and guarantees. Actual results could differ from these estimates.

(n) Budget:

The Fund has not presented a budget in its statement of operations as the Fund does not prepare an assessment of future operations.

**2. Loans receivable:**

| | 2013 | 2012 |
|---|---|---|
| Performing loans | $ 194,381 | $ 149,148 |
| Performing loans with specific reserves | 54,184 | 25,472 |
| Impaired loans | 7,446 | 14,192 |
| | $ 256,011 | $ 188,812 |

Interest charged on these loans ranges from nil% to 9% (2012 - nil to 9%). Repayment terms are negotiated on specific loans and would normally not exceed 13 years (2012 - 15 years). The level of security on loans is also negotiated between the Fund and the debtor. Security can range from an unsecured position to a fully secured position.

Performing loans with specific reserves are loans where payments are being made on time. However, there exists a specific reserve against the loan receivable.

Impaired loans includes those loans whereby payments are in arrears by 3 months or more.

**3. Venture Corporation Act:**

The Venture Corporations Act was assented to June 5, 1980 and came into force January 28, 1981. This Act was enacted to provide a means of encouraging investment in small businesses in Nova Scotia.

A company that qualifies as a venture corporation may receive loans under this Act. Loan proceeds must be used to purchase shares or grant unsecured loans to eligible small businesses. Principal repayments and accrual of interest are not required to commence until the tenth anniversary of such loans.

The Act directs that money provided shall be financial assistance within the meaning of the former Industrial Development Act, and payments made pursuant to the Act shall be made out of the Fund.

No payments were received on these loans during the year.

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Loans made to venture corporations | $ | 809 | $ | 809 |
| Less: allowance for doubtful accounts | | 809 | | 809 |
| | $ | - | $ | - |

**4. Royalty rights:**

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Loans made to venture corporations | $ | 1,400 | $ | 1,416 |
| Less: allowance for doubtful accounts | | 1,400 | | 1,416 |
| | $ | - | $ | - |

Certain investments of the Fund are royalty agreements that provide a return in the form of royalty payments. The royalty payments are based upon net sales of the companies.

**5. Shares:**

| | 2013 | 2012 |
|---|---|---|
| Preferred shares | $ 18,741 | $ 18,741 |
| Common shares | 23,939 | 22,671 |
| | $ 42,680 | $ 41,412 |

Shares are recorded at cost. Any provision for the decline of fair market value below the cost of shares has been included in the allowance for doubtful accounts.

**6. Provision for concessionary assistance:**

The provision for concessionary assistance is the difference between the net present value at year end of the anticipated future repayments to be received by the Fund and the amount of assistance advanced to an economic entity.

The terms of concessionary assistance through the Fund include low interest rates, extended repayment terms and forgiveness clauses. This assistance is recorded at cost and reduced by the provision for concessionary assistance. Any adjustments to or recovery of the net present value of this assistance in subsequent years is reflected in the provision for concessionary assistance. The assistance outstanding, provision for concessionary assistance and net book value related to each of loans, shares and royalties is as follows:

| | | | 2013 | 2012 |
|---|---|---|---|---|
| | Assistance outstanding | Provision for concessionary assistance | Net book value | Net book value |
| Loans | $ 82,868 | $ 25,693 | $ 57,175 | $ 23,431 |
| Shares | 9,741 | 4,300 | 5,441 | 5,441 |
| | $ 92,609 | $ 29,993 | $ 62,616 | $ 28,872 |

**7. Guarantees:**

| | 2013 | 2012 |
|---|---|---|
| Guarantees - in effect and utilized | $ 45,749 | $ 39,931 |
| Guarantees - in effect but unutilized | 18,801 | 25,769 |
| | $ 64,550 | $ 65,700 |

**8. Provision for concessionary assistance, development incentives and possible losses on assistance:**

The following is a continuity of the provision:

| | 2013 | 2012 |
|---|---|---|
| Opening balance | $ 69,796 | $ - |
| Balance transferred from Industrial Expansion Fund | - | 56,532 |
| Add current period provision: | | |
| Doubtful accounts | 17,307 | 13,833 |
| Development incentives | 52,160 | (569) |
| | 139,263 | 69,796 |
| Less accounts written off | 17,402 | - |
| | $ 121,861 | $ 69,796 |

**9. Contingencies:**

The Fund has entered into agreements which provide for the funding of expenditures incurred by third parties in respect of environmental remediation of contaminated sites. Estimates of the amount of future costs, if any, under these agreements cannot be made with any certainty and are not reflected in the financial statements.

## 10. Financial instruments:

(a) Fair value:

Fair value measurements are categorized using the fair value hierarchy that reflects the significance of inputs used in determining the fair values.

There are no financial instruments recorded at fair value.

(b) Associated risks:

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. The Fund's authorized net fund balance - committed and uncommitted is primarily exposed to credit, interest rate, market and liquidity risk.

(i) Credit risk:

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Fund. To mitigate this risk, the Fund regularly monitors entities to which financial assistance has been provided. In addition to its regular monitoring procedures, at period-end, management performed an analysis on a number of accounts in order to assess the Fund's total exposure to credit and other risks. Factors such as the financial condition of the client were evaluated to determine how risk has changed since inception of the financial assistance or the last analysis. Changes in risk are reflected in the carrying value of the assistance via the provision for concessionary assistance, the allowance for doubtful accounts and the provision for payment under guarantees.

As at period-end, the Fund had a significant concentration in its investment portfolio with respect to its five largest investees. At period-end, the concentration of investments advanced to the Fund's five largest investees was 62% (2012 - 71%) of the carrying value of the investment portfolio.

**10. Financial instruments (continued):**

At period-end, the Fund had a significant concentration in its investment portfolio with respect to timber-related industries. At period-end, the concentration of investments advanced to companies participating in timber-related industries was 53% (2012 - 42%).

(ii) Interest rate risk:

Interest rate risk is the risk that the market value of the Fund's investments and debt will fluctuate due to changes in market interest rates. It is management's opinion that the Fund is not exposed to significant interest rate risk arising from financial instruments.

(iii) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity requirements are managed through income generated from the loans receivable and guarantee fees, principal repayments received on the loans receivable and other funding received from the Province of Nova Scotia. In the normal course of business the Fund enters into contracts that give rise to commitments for future payments which may also impact the Fund's liquidity.

(iv) Market risk:

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual financial instruments, its issuer or factors affecting all similar financial instruments traded in the market. At year end, there exists an exposure to market risk with respect to the Fund's shares that are not publicly traded (note 5).

## 11. Transactions with the Province:

The Fund had the following transactions with related parties in addition to those disclosed elsewhere in these financial statements:

In 2010, the former Industrial Expansion Fund authorized a loan of $1,000 to Harbourside Commercial Properties Limited, a crown corporation owned by the Province of Nova Scotia. The loan was made on commercial terms. This loan was repaid during the year ended March 31, 2013.

In 2008, the former Industrial Expansion Fund purchased $9,741 of preferred shares of Harbourside Commercial Properties Limited. The subscribed value of the shares is equal to the appraised value of the fixed assets of Harbourside Commercial Properties Limited. An allowance against the face value of the shares was recorded in 2008 for $4,300 because of uncertainty in the date and amount of the ultimate redemption of the preferred shares. There was no change in the provision in the current period.

In fiscal 2011, the Fund authorized financial assistance of $14,000 and further financial assistance in the amount of $12,000 in 2012 to the Forestry Infrastructure Fund. The financial assistance authorized and advanced in 2011 has been repaid. The financial assistance of $12,000 authorized in 2012 was advanced in the amount of $10,928 which was written off during the year. The remaining authorization was cancelled at the termination of the Forestry Infrastructure Fund.

The Province of Nova Scotia pays certain expenses, including salaries and benefits, rent, travel, professional fees and miscellaneous office expenses, on behalf of the Fund with no charge to the Fund.

The Fund enters into transactions with other government departments, agencies and corporations in the normal course of operations and on terms and conditions that would be similar to those of non-related parties.